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The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

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A Widening U.S. Trade Deficit . . .

One of the more challenging issues confronting public policymakers and private industry alike is how to cope with the damaging effects of a widening trade deficit. With the dollar still at lofty heights and import penetration of domestic markets increasing, numerous industries are increasingly hard-pressed to compete with foreign manufacturers, prompting lost sales and profits, jobs and household income. Although total imports dipped slightly in February, non-petroleum imports continued to rise, pushing the trade deficit to a hefty $11.45 billion during the month—the largest trade shortfall since September, 1984.

But what about the other side of the coin, the beneficiaries of the growing U.S. appetite for foreign-produced products? Too often overlooked in all this are the stimulative effects of the trade deficit worldwide, particularly with our trading partners south of the border.

In Latin America, real growth resumed in 1984. At an almost three percent clip, this increase ended the region's sharpest and most severe recession since the 1930s. Contributing to this recovery was a dramatic improvement in the external accounts of several of the Latin American countries last year—paced by a ten percent increase in Latin exports. As a result, the trade surplus of the six high debt Latin countries alone reached almost $40 billion, up nearly $10 billion from 1983 and almost $37 billion better than in 1981.

Even more encouraging, these gains occurred despite a pickup in imports, which rose almost three percent region-wide last year, following a two-year slide. But stepped-up Latin export sales were directly reflected in the trade balance of the United States—one of their largest trading partners. Although imports of such agricultural commodities as coffee and sugar rose substantially, there was also a surge in imports of such manufactured goods as auto parts, steel products and electrical equipment. Overall, the U.S. absorbed well over half of Latin America's export increase. This resulted in the region's trade surplus with the U.S. topping $16 billion in 1984, a sharp turnaround from three years ago when the U.S. enjoyed a surplus of nearly $7 billion!

. . . Helps Put Latin America . . .

The benefits of this better trade performance were, however, disproportionately shared. Brazil alone accounted for more than half of the region's rise in export earnings, and together with Mexico garnered nearly three quarters of the increase; the remainder accrued to Venezuela, Argentina and Colombia. Last year, the improved trade performance of the six high debt Latin American countries helped to generate a current account surplus of nearly $3½ billion—a substantial turnaround from the $30 billion plus shortfall of 1981.

MERCHANDISE TRADE AND CURRENT ACCOUNT BALANCES OF SELECTED DEVELOPING COUNTRIES

(billions of U.S. dollars)

	Merchandise Trade		Current Account	
Country	1981	1984(e)	1981	1984(e)
Argentina	0.7	4.0	– 4.7	–2.2
Brazil	1.2	13.1	–11.7	0.2
Chile	–2.7	0.3	– 4.7	–2.1
Mexico	–4.1	12.8	–13.9	4.2
Peru	–0.5	0.9	– 1.7	–0.6
Venezuela	7.9	8.2	4.0	3.9
6 High Debt Latin Countries	2.5	39.3	–32.7	3.4

Source: International Monetary Fund; MH estimates.

The revival of regional exports also facilitated a substantial rebuilding of the hard currency reserves of those countries which achieved hefty trade surpluses. Brazil, Mexico and Venezuela added sizable sums to their existing cash balances last year, accounting for the largest chunk of the $13 billion reserve increase in the region as a whole—the largest annual increase for Latin America on record!

This improvement in liquidity represents an important step towards the restoration of Latin America's creditworthiness. Another major step in this direction was a marked slowdown in the growth of the region's external debt. This is because with trade balances firmly in the black and current account deficits narrowing, the need for external borrowings diminished as well. The gross external

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debt of Latin America and the Caribbean reached $365 billion at yearend 1984. This 3.2 percent rise matched the 1983 increase; it represents no change in real terms in the last two years, and contrasts sharply with an increase of 14 percent in 1982 and an average annual increase of 23 percent between 1977 and 1981. These developments have substantially eased the heavy servicing burden imposed by this external debt, which declined relative both to the size of these countries and, even more markedly, relative to their export earnings.

. . . Back On The Growth Track

Unfortunately, the adjustment in the external accounts has yet to be matched by comparable improvements in Latin America's domestic economies. Targets set for cuts in fiscal deficits, inflation rates and monetary expansion have yet to be met, although taxes were boosted, public spending reduced, credit availability restricted, interest rates raised, and currencies devalued to promote export competitiveness. These adjustment measures are necessary to sustain overall growth in the years to come. Emphasis on business investment will be necessary to avoid potential capacity bottlenecks which could result from investment declines in the last three years.

But with the likelihood of raising sizable sums abroad through further borrowings diminished for now, and direct foreign investment offering only a partial solution, the largest chunk of

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 3/27/85	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	168.108	– .290	+ 9.790
Loans to Depository Inst.	.897	– .784	– .298
Float	.252	– .077	– .229
Total Reserve Bank Credit	181.159	– 1.050	+12.203
Treasury Deposits with Federal Reserve Banks	4.280	+ .462	– .078
Currency in Circulation	178.850	– .450	+10.587
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	115.079	– .427	– 2.486
	3/27/85		
Member Bank Reserves:			
Total Reserves Held	39.732	– .322	+ 3.355
Excess (Deficiency)	.668	– .083	– .057
Net Free Reserves**	.218	+ .108	+ .598
		% Change Since Three Months Ago*	**% Change Since Year Ago**
Monetary Aggregates†			
M1 (3/18/85)	570.1	+ 11.5‡	+ 6.5‡
M2 (February '85)	2,419.8	+ 12.6	+ 9.2
M3 (February '85)	3,040.7	+ 10.9	+ 10.9
Domestic Nonfinancial Debt (4th Q'84)	5,970.8	+ 14.4	+ 13.6

†Seasonally adjusted. **Redefined. *Seasonally adjusted annual rate. ‡Four-week moving average.

New York Money Market

Offering Rates 3/29/85	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	8.16%	8.54%	8.75%
* Federal Agencies	8.95	9.50	9.90
* Project Notes—Taxfree (46% Taxable Equivalent)	7.87	8.33	9.26
Negotiable Time CDs Manufacturers Hanover		Rates By Arrangement	
* Secondary Market—Prime	8.75	9.15	9.95

‡Finance Company Paper—Prime

5- 14 days	8.50%
15- 29 days	8.50
30- 59 days	8.55
60- 89 days	8.60
90-179 days	8.70
180-239 days	8.90
240-270 days	8.90

‡* Bankers' Acceptances

Apr.	8.70%
May	8.75
Jun.	8.75
Jul.	8.85
Aug.	8.85
Sep.	8.85

‡Industrial Paper—Prime

30- 89 days	8.63%
90-120 days	8.60

†Federal Funds Effective Rate 8.75%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'84	$ 3,759	$ 3,695	$ 3,432
Gross National Product (1972 Dollars)*	4th Q'84	$ 1,662	$ 1,645	$ 1,573
Percent Change, Annual Rate	4th Q'84	4.3	1.6	5.9
Change in Consumer Prices*	Feb '85	3.6%	2.4%	4.8%
Change in Producer Prices*	Feb '85	– 1.2%	0.0%	3.6%
Civilian Employment (Thousands of Persons)†	Feb '85	106,685	106,391	103,888
Unemployment as % of Civilian Labor Force†	Feb '85	7.3%	7.4%	7.8%
Personal Income*	Feb '85	$ 3,141	$ 3,131	$ 2,924
Leading Indicators Composite Index (1967=100)†	Feb '85n	167.5	166.4r	166.5
Industrial Production Index (1967=100) †	Feb '85	164.7	165.5	160.0
Net Change in Consumer Installment Credit †	Jan '85	$ 7.22	$ 6.82	$ 5.40
U.S. Merchandise Trade Balance †	Feb '85n	–$ 11.45	–$ 10.29	–$ 10.38
Plant and Equipment Expenditures*	1st Q'85	$337.85(a)	$321.40(a)	$293.15
Private Housing Starts (Thousands of Units)*	Feb '85	1,638	1,841	2,208
New Construction Expenditures*	Jan '85	$ 324.9	$ 318.4	$ 280.9
Total Business Inventories †	Jan '85	$ 568.4	$ 566.3	$ 518.1
Total Business Sales †	Jan '85	$ 415.5	$ 418.5	$ 401.1

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

these funds must be provided internally—which means raising domestic savings. The first step in this direction has already begun with the trimming of fiscal deficits and the freeing of funds for private investment. The second step is to create an economic environment which is more conducive to savings and investment. This would include measures that ensure the maintenance of positive real interest rates and competitive exchange rates, not to mention more modest rates of inflation.

These efforts represent only one phase of resolving the Latin American debt problem. Other remedies, whether in the form of multi-year debt reschedulings, stepped-up government-to-government assistance or increased funding for multinational development institutions or industrial country export credit agencies, are still being sought.

The United States has a major stake in ensuring that Latin America's liquidity problems continue to abate. For over the past three years, U.S. export sales to Latin America have declined by almost $12½ billion—accounting for fully 80 percent of the global U.S. export decline during the same period. Just putting these countries back on the growth track will do more to boost the fortunes of the U.S. exporting community than any protectionist measures being considered either now, or likely to be in the future. ■

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (3/13/85)	156,673	– 353	+13,348
New York City (3/20/85)	33,395	– 42	+ 4,212
Commercial Paper (3/20/85)	247,656	– 1,217	+50,329

Bank Loans

(Millions of Dollars)

	Commercial and Industrial Loans		
	Latest Week	Change Since Week Ago	Change Since Year Ago
Weekly Reporting Large Commercial Banks			
Nationwide (3/13/85)	254,929	– 721	+ 24,589
New York City (3/20/85)	62,178	+ 326	+ 1,360

	Total Loans and Leases Gross Adjusted		
	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (3/13/85)	661,279	– 1,640	+ 70,770
New York City (3/20/85)	143,917	+ 551	+ 11,634

Financial Markets

	Friday 3/29/85	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	8.45%	– .34	– 1.51
180-Day Bills†	9.03	– .38	– 1.36
Longest Bills†	9.46	– .37	– 1.20
Recent Issues:			
10³/₄s 3/31/87 (When Issued)	10.43	– .32	
11¹/₄s 3/31/89 (When Issued)	11.12	NA	
11¹/₄s 2/15/95	11.65	– .22	
11¹/₄s 2/15/15	11.65	– .16	
Municipals:			
Bond Buyer–20 Bond Index* (3/28/85)	9.75%	– .07	– .18
Blue List Total ($ Million)	$1,463	– $210	– $ 52
30-Day Visible Supply ($ Million)	$3,987	– $304	+ $1,889
Total	$5,450	– $514	+ $1,837
Corporates:			
Moody's Aa Composite (3/28/85)	12.94%	– .01	– .36
30-Day Visible Supply ($ Million)	$ 475	– $405	– $1,165
Stocks:			
Dow-Jones Averages:			
Industrials	1,266.78	– .67	+ 101.89
Transportation	603.08	+ 8.20	+ 92.89
Utilities	153.11	+ 3.85	+ 26.28
65 Stocks	515.11	+ 3.70	+ 58.46
Standard and Poor's 500 Stocks	180.66	+ 1.62	+ 21.48
N.Y.S.E. Composite Index	104.60	+ .95	+ 12.93
N.Y.S.E. Avg. Daily Vol. for Week (000's)	93,316	– 9,990	+ 12,416

* 46% Taxable equivalent 18.06%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 3/29/85	Week Ago
Overnight	8.63%	8.63%
1 month	8.69	8.81
3 month	9.00	9.13
6 month	9.44	9.69
1 year	10.19	10.50
EURODOLLAR BONDS Average Yield		
Medium Term (5 to 7 yrs.)	11.85%	11.95%
Long Term (7 to 15 yrs.)	12.00	12.10

FOREIGN EXCHANGE SPOT RATES New York Opening (3/29/85)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01616	61.8750
Canada	.7299	1.3700
Denmark	.08926	11.2030
France	.1064	9.4000
Germany	.3241	3.0850
Italy	.0005062	1975.50
Japan	.003982	251.13
Mexico	.004124	242.50
Netherlands	.2878	3.4750
Switzerland	.3813	2.6225
U.K.	1.2445	.8035

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